

ELECTION 2020

ONE MONTH DOWN, TWO REMAINING, BEFORE ELECTION

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As highlighted in a previous report in our election series, stock market movement in the three months before Election Day often predicts the outcome of a presidential election. Historically, when the S&P 500 Index had a gain from July 31 through October 31, the incumbent, or his political party, retained the White House in all but one year. Whenever the S&P 500 declined in price during these three months, the incumbent or his party's candidate lost the election. The only exception occurred in 1956 when President Dwight D. Eisenhower won re-election despite the S&P 500 falling 7.71% during this three-month period.

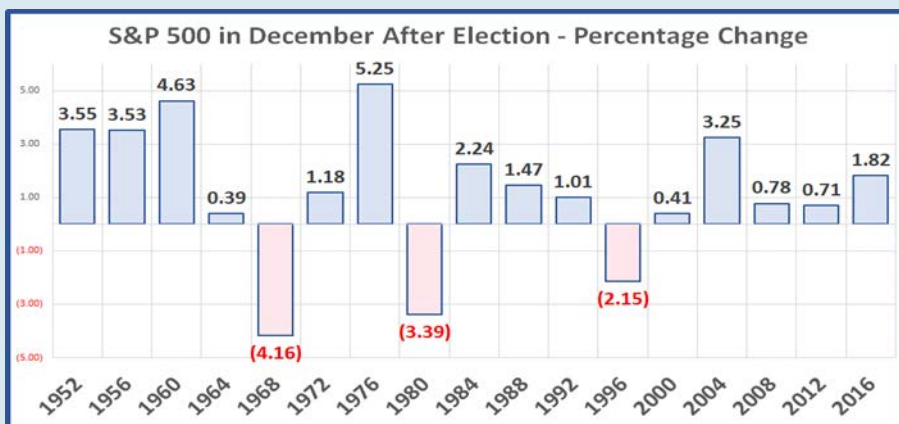
The S&P 500 posted a gain in the three-month pre-election periods nine out of the previous 17 presidential elections for an average 0.11% gain. The two best three-month gains came as President Ronald Reagan (1984 up 10.24%) and President William Clinton (1996 up 10.21%) achieved re-election during periods when the U.S. economy was strong.

The number of times a month was up versus down through the three-month periods was fairly uniform. The S&P 500 ended higher 10 times in August, 11 times in September, and 10 times in October. August, however, produced the best average result with a 0.90% gain while September and October produced respective losses of 0.25% and 0.62%. Regardless of which candidate or party won the White House, the S&P 500 fell in December immediately after the election only in 1968, 1980, and 1996.

Election jitters are becoming part of the market. Early this month, Credit Suisse indicated the options market was implying a 4.3% one-day post-election move for the S&P 500. For comparison, at this point

	Aug.	Sept.	Oct.	Monthly Average	Gain/Loss End of July through Oct.	Election Outcome
1952	-1.65%	-2.43%	0.16%	-1.31%	-3.46%	Eisenhower (R) replaced Democrat
1956	-4.25%	-5.30%	1.97%	-2.53%	-7.71%	Eisenhower (R) defeated Democrat
1960	2.58%	-6.25%	0.06%	-1.20%	-3.82%	Kennedy (D) replaced Republican
1964	-1.62%	2.87%	0.81%	0.69%	2.02%	Johnson (D) held White House
1968	1.15%	3.85%	0.72%	1.91%	5.80%	Nixon (R) replaced Democrat
1972	3.45%	-0.49%	0.93%	1.30%	3.90%	Nixon (R) held the White House
1976	-0.51%	2.26%	-2.22%	-0.16%	-0.52%	Carter (D) replaced Republican
1980	0.58%	2.52%	1.60%	1.57%	4.77%	Reagan (R) replaced Democrat
1984	10.63%	-0.35%	-0.01%	3.42%	10.24%	Reagan (R) held the White House
1988	-3.86%	3.97%	2.60%	0.90%	2.55%	Bush (R) held the White House
1992	-2.40%	0.91%	0.21%	-0.43%	-1.30%	Clinton (D) replaced Republican
1996	1.88%	5.42%	2.61%	3.30%	10.21%	Clinton (D) held the White House
2000	6.07%	-5.35%	-0.50%	0.07%	-0.10%	Bush (R) replaced Democrat
2004	0.23%	0.94%	1.40%	0.86%	2.59%	Bush (R) held the White House
2008	1.22%	-9.08%	-16.94%	-8.27%	-23.56%	Obama (D) replaced Republican
2012	1.98%	2.42%	-1.98%	0.81%	2.38%	Obama (D) held the White House
2016	-0.12%	-0.12%	-1.94%	-0.73%	-2.18%	Trump (R) replaced Democrat
2020	7.01%	?	?	?	?	?

(Source: Janney Investment Strategy Group)



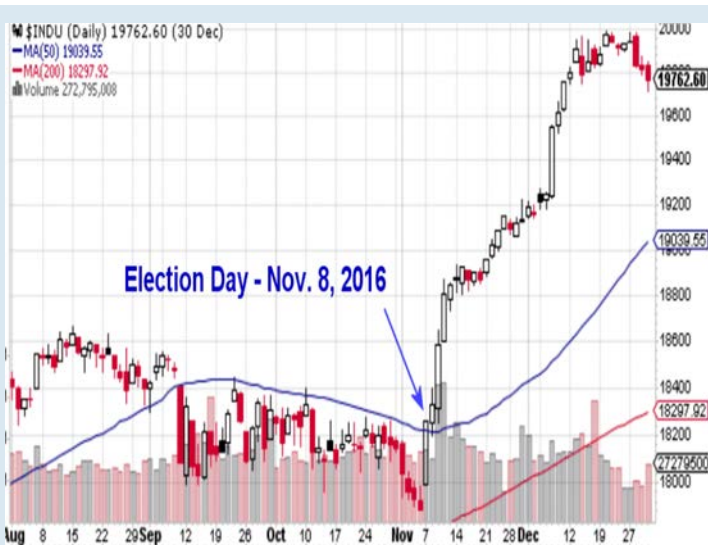
(Source: Janney Investment Strategy Group)

in 2016, the options market was pricing in only an approximate 1.1% election-related move. The Volatility Index (VIX) has gone up in the month before the election every time in the past seven cycles, but the current level is high compared to history. The average increase in the VIX over the last seven election cycles is just 3.5 points, and 2008 was the only time the VIX increased by more than what is currently priced in.



Typically, the Election Day reactions tended to be less volatile than pre-election volatility implied, but there were two key exceptions. In 2008, the S&P 500 fell 5.3% the day after the election, and in 1948 the S&P 500 fell 4.6% following President Harry Truman's surprising defeat of Thomas E. Dewey (national polls were off by more than 13 percentage points).

The post-2016 election reaction belongs in the record books also. Wall Street greeted President Donald Trump's election win with futures projecting a 600-point opening loss (-3.2%) for the Dow Jones Industrial Average (DJIA). Instead, the day after the election, the DJIA was 766 points (4.3%) above where it was the Friday before Election Day.

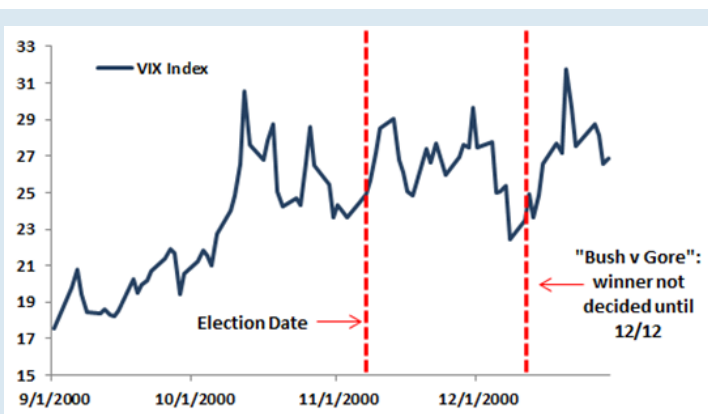


(Source: Janney Investment Strategy Group)

Market results in and around Election Day are interesting, but the current election has two factors that could make historic precedent less relevant.

Absentee ballots are not new, but mass mail-in balloting is. Some states allow processing mail-in ballots weeks in advance of Election Day. On the other end of the spectrum, several key states will not permit processing mail-in ballots earlier than Election Day while others will accept ballots as long as they are postmarked by Election Day. The wide variability in vote timing could mean the ultimate winner might not be known November 3.

In addition, contested votes could delay the eventual outcome. In 2000, the Bush v. Gore election was not decided until December 12 that year, as litigation around Florida's recount went to the Supreme Court. As the chart on the left shows, volatility was elevated throughout the period needed to finalize the election outcome. December 8 is the deadline for resolving 2020 election disputes.



(Source: CS Equity Derivatives Strategy)

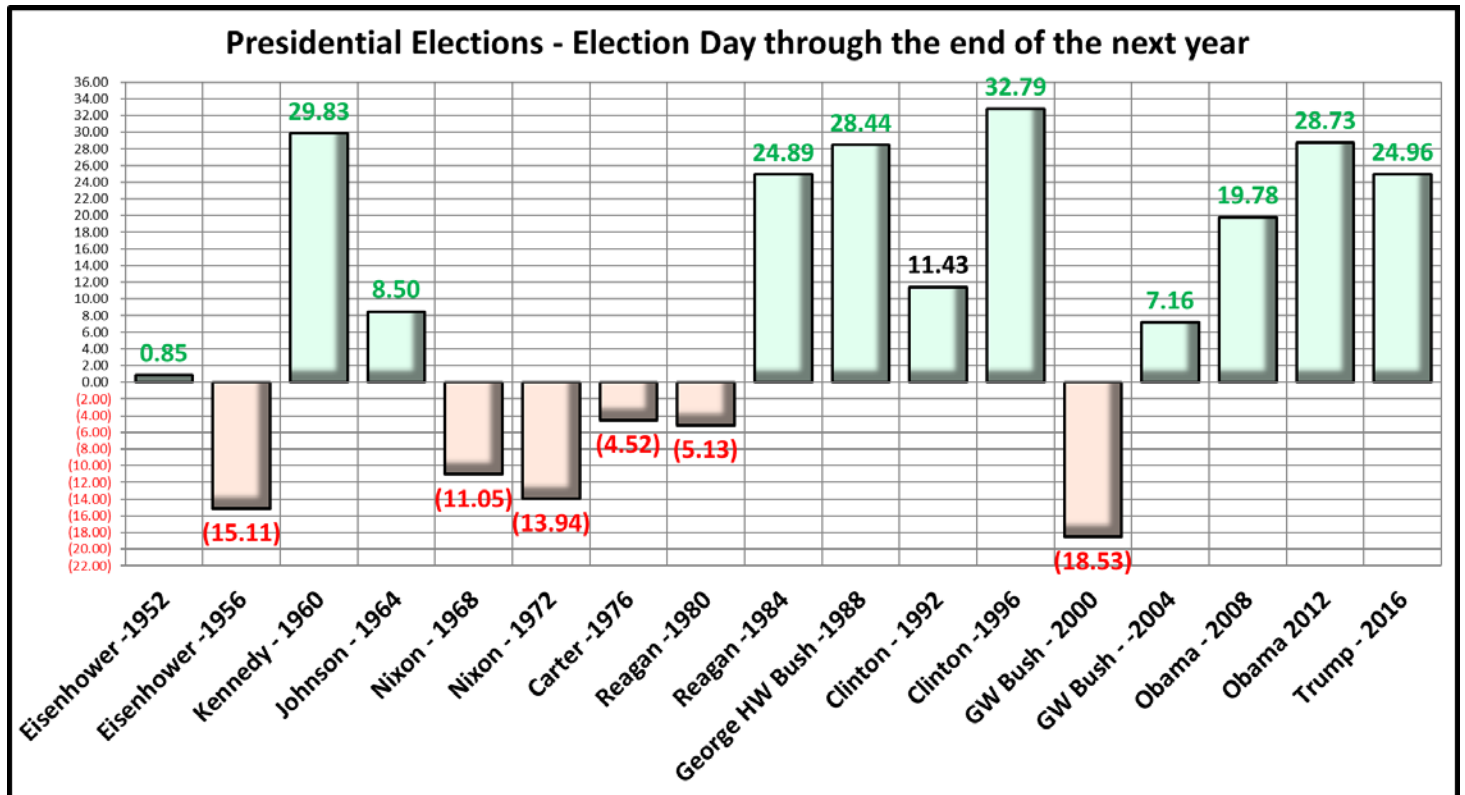
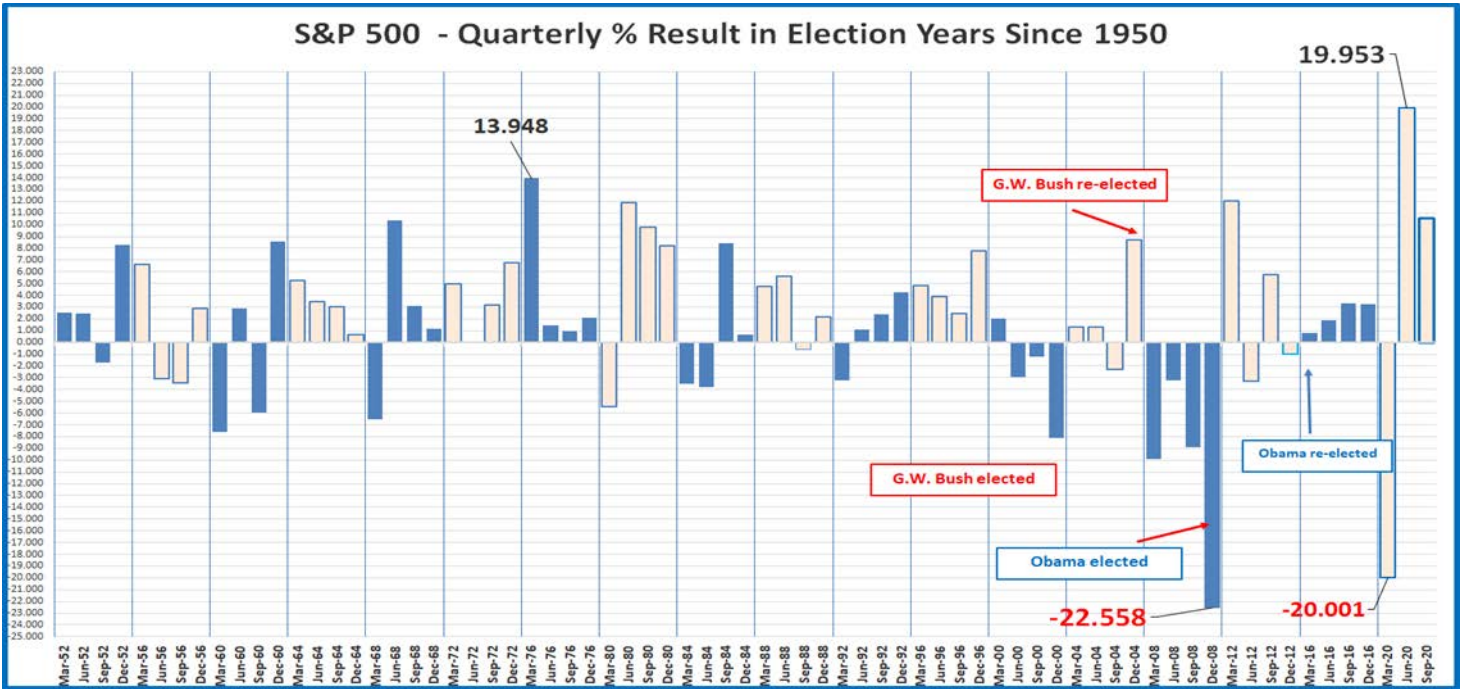
Despite the possible complications this year, we still believe the pattern outlined in the opening paragraph of this report provides a useful reference to the market's relationship to an upcoming election. We, however, would quickly add that despite the potential policy implications of a presidential election, basing major investment decisions largely because of one, or any period within an election year, can be a mistake. For example, if instead of considering only the three months before an election you move the starting point a month or two in any direction, the implied outcome can change substantially.

Perhaps the best election-related information comes in a quote from Benjamin Graham who said, "In the short run, the market is a voting machine but in the long run, it is a weighing machine."

The stock market may vote for the candidate it perceives to be the preferred choice, but longer term it weighs earnings and a multitude of economic factors. The weight of this evidence has given the market a persistent upward bias for as long as an equity market has existed.

The following two pages have charts related to the stock market and presidential elections.

The source for these charts is Janney Investment Strategy Group.



Election Summaries - 1952 through 2016

	Presidential Candidate		Political Party	Popular Vote		Electoral Vote			Presidential Candidate		Political Party	Popular Vote		Electoral Vote	
1952	Dwight Eisenhower	Richard Nixon	Republican	34,075,529	55.18%	442	83.20%	1988	George Bush	J. Danforth Quayle	Republican	48,886,597	53.37%	426	79.20%
	Adlai Stevenson	John Sparkman	Democratic	27,375,090	44.33%	89	16.80%		Michael Dukakis	Lloyd Bentsen	Democratic	41,809,476	45.65%	111	20.60%
1956	Dwight Eisenhower	Richard Nixon	Republican	35,579,180	57.37%	457	86.10%	1992	William Clinton	Albert Gore Jr.	Democratic	44,909,806	43.01%	370	68.80%
	Adlai Stevenson	Estes Kefauver	Democratic	26,028,028	41.97%	73	13.70%		George Bush	J. Danforth Quayle	Republican	39,104,550	37.45%	168	31.20%
1960	John Kennedy	Lyndon Johnson	Democratic	34,220,984	49.72%	303	56.40%	1996	William Clinton	Albert Gore Jr.	Democratic	47,400,125	49.23%	379	70.40%
	Richard Nixon	Henry Lodge	Republican	34,108,157	49.55%	219	40.80%		Robert Dole	Jack Kemp	Republican	39,198,755	40.72%	159	29.60%
1964	Lyndon Johnson	Hubert Humphrey	Democratic	43,129,040	61.05%	486	90.30%	2000	George W. Bush	Richard Cheney	Republican	50,462,412	47.87%	271	50.40%
	Barry Goldwater	William Miller	Republican	27,175,754	38.47%	52	9.70%		Albert Gore Jr.	Joseph Lieberman	Democratic	51,009,810	48.38%	266	49.40%
1968	Richard Nixon	Spiro Agnew	Republican	31,783,783	43.42%	301	55.90%	2004	George W. Bush	Richard Cheney	Republican	62,039,572	50.73%	286	53.20%
	Hubert Humphrey	Edmund Muskie	Democratic	31,271,839	42.72%	191	35.50%		John Kerry	John Edwards	Democratic	59,027,115	48.26%	251	46.70%
1972	Richard Nixon	Spiro Agnew	Republican	47,168,710	60.67%	520	96.70%	2008	Barack H. Obama	Joseph R. Biden, Jr.	Democratic	69,499,428	52.86%	365	67.80%
	George McGovern	R. Sargent Shriver	Democratic	29,173,222	37.52%	17	3.20%		John S. McCain, III	Sarah H. Palin	Republican	59,950,323	45.60%	173	32.20%
1976	James Carter	Walter Mondale	Democratic	40,831,881	50.08%	297	55.20%	2012	Barack H. Obama	Joseph R. Biden, Jr.	Democratic	65,918,507	51.01%	332	61.70%
	Gerald Ford	Robert Dole	Republican	39,148,634	48.01%	240	44.60%		Willard Mitt Romney	Paul Ryan	Republican	60,934,407	47.15%	206	38.30%
1980	Ronald Reagan	George Bush	Republican	43,903,230	50.75%	489	90.90%	2016	Donald J. Trump	Michael R. Pence	Republican	62,985,134	45.93%	304	56.50%
	James Carter	Walter Mondale	Democratic	35,480,115	41.01%	49	9.10%		Hillary Clinton	Tim Kaine	Democratic	65,853,652	48.02%	227	42.20%
1984	Ronald Reagan	George Bush	Republican	54,455,472	58.77%	525	97.60%								
	Walter Mondale	Geraldine Ferraro	Democratic	37,577,352	40.56%	13	2.40%								

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